

January 20, 2023

Oriental Aromatics Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based – Term loan	157.65	150.00	[ICRA]A (Negative); reaffirmed, outlook revised to Negative from Stable
Long term/Short term – Fund based/Non fund based	263.00	270.65	[ICRA]A (Negative)/[ICRA]A2+; reaffirmed, outlook on long-term rating revised to Negative from Stable
Total	420.65	420.65	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook to Negative factors in ICRA's expectations that the margin profile of Oriental Aromatics Limited (OAL) will be under pressure, considering the elevated raw material prices, competition in the camphor segment and demand constraints in the perfumery segment. These factors would lower the cash accruals and moderate OAL's debt protection metrics in the near to medium term amid the ongoing debt-funded capex.

The profitability is likely to be impacted the most in FY2023 and improve thereafter, although it may not touch the historical levels. The company is also undertaking debt-funded capex to expand its capacities in aroma chemicals, which is expected to peak in FY2023 and FY2024, thereby keeping the debt/OPBDITA stretched during this period.

The ratings, however, continue to factor in the healthy growth in volumes in H1 FY2023 which is expected to continue in the medium term. The ongoing capex across all the facilities and the greenfield project at Mahad are expected to support the revenue growth, going forward. The ratings continue to consider the company's established market position in the Indian camphor and aroma chemical industry, its diversified product mix as well as exposure to diversified end-user industries.

ICRA, however, notes that the company is undertaking large debt-funded capex, which is anticipated to moderate its debt protection metrics in the near to medium term. The capex of ~Rs. 250-300 crore would be spread over FY2023-FY2025 and entails expansion of capacities at its existing Vadodara (Gujarat) unit and setting up a new capacity at Mahad (Maharashtra). The company has witnessed delays in both the projects due to multiple reasons and the revised capex is lower than earlier envisaged, which will be a positive amid the low profitability trend. The company would remain exposed to project execution risks and the successful completion of these projects in a timely manner within the budgeted cost remain a key monitorable.

The assigned ratings also remain constrained by the vulnerability of profitability to the fluctuations in raw material prices and the adverse forex movements due to significant raw material imports, although the forex risk is partly mitigated by the natural hedge from exports. The ratings also consider the high working capital intensity of OAL's business operations, along with intense competition from other established players in the industry as well as imports.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established market position in chemical industry - The Bodani family (promoters) has an extensive experience in the chemical industry. Hence, the company continues to benefit from its promoters' experience and its position as one of the leading players in the Indian aromatic chemical and camphor market.

Reputed client base with a diverse product mix catering to different industries - OAL has a diverse product mix catering to different industries such as personal care, food processing, pharmaceutical and industrial purposes, which provide cushion against demand fluctuations in a specific industry. Over the years, the company has established strong relationships with several reputed companies, resulting in repeat business.

Healthy growth in volumes – OAL has demonstrated healthy growth in volumes of its key products in the current fiscal and the trend is likely to continue, going forward. The company has an established position in the market, which along with good relationships with its reputed client base, helps generate healthy volume sales.

Credit challenges

Vulnerability of profitability to volatility in raw material prices and foreign exchange fluctuations - OAL's raw material consumption accounts for ~60% of the sales, exposing its profitability to price fluctuation risk. Its key raw material, alpha-pinene, has witnessed high price volatility in the past. In addition, ICRA notes that the company enters into fixed-price contracts with some of its customers, thereby limiting its ability to pass on the impact of the increase in raw material prices instantaneously. Further, the company is exposed to forex fluctuation risks owing to significant exports and imports, though the risk is partly mitigated due to a natural hedge from exports. Nevertheless, the company has adequately passed on the fluctuations in raw material prices to its customers in the camphor segment.

High working capital intensity - The working capital intensity of operations remains high (NWC/OI of more than 50%) because of OAL's high inventory holding period and debtor days. OAL has to maintain high inventory as many raw materials are required in the manufacturing process as well as for the high lead time for imported material (largely for the perfumery chemical segment).

Intense competition from domestic manufacturers and imports - The camphor industry faces intense competition from many domestic players and imports from China. The flavour and fragrance segment also faces intense competition from large international and domestic players.

Project execution risk owing to large capex - The company is planning a cumulative capex of ~Rs. 250-300 crore over FY2023-FY2025, which is proposed to be funded by a debt-to-equity mix of 75:25. While the company has witnessed delays in both its projects due to multiple reasons, the capex is now staggered and the amount is lower than earlier envisaged. Nonetheless, with the capex being sizeable in comparison to the company's existing gross block, OAL would remain exposed to project execution risks, while the successful completion and ramp up of operations from these projects remain the key monitorables. Moreover, the addition of debt will moderate its credit metrics to some extent.

The Vadodara capex entails setting up of hydrogenation facilities, expansion of capacity for its multipurpose plant as well as a new dedicated block for a high-value, low-volume, speciality chemical. The Mahad capex was earlier planned for setting up a camphor plant. However, this has been changed to aroma/speciality chemicals.

Environmental and Social Risks

OAL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety and potential penalties in case of any non-compliance. However, as per the disclosures in the audit report, the company is environmentally compliant and adheres to various industry standards. Further, it has appropriate waste management systems across its facilities. The company is also compliant with environmental law/regulations pertaining to water and air pollution.

The company's exposure to social risks mainly pertain to safe operations and remaining compliant to all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. As per the disclosures, the company has safety equipment in place at its units.

Liquidity position: Adequate

OAL's liquidity is expected to remain adequate, supported by undrawn lines of credit. ICRA notes that the company plans to incur a capex of ~Rs. 250-300 crore during FY2023-FY2025, which will be partially funded (~25%) through internal accruals, thereby limiting the increase in free cash balance. Further, considering the high working capital intensity, the working capital requirement is also expected to increase along with the growing scale of operations. Nevertheless, ICRA notes that the utilisation of the company's fund-based limits has remained low with average utilisation of ~40-50% in the last 12 months, providing buffer to its liquidity.

Rating sensitivities

Positive factors – The outlook can be revised to Stable if there is a consistent growth in OAL's turnover along with an improvement in its profit margins, leading to healthy cash generation.

Negative factors – Pressure on the ratings could arise if OAL is unable to improve its margin profile or if there are cost overruns in the large debt-funded capex, which would weaken the debt protection metrics with TD/OPBDITA exceeding 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation For arriving at the ratings, ICRA has combined the business and financial risk profiles of Oriental Aromatics Limited (OAL) and its subsidiary, Oriental Aromatics and Sons Limited, as the entities are owned and managed by the same promoters and are involved in related business sectors.

About the company

OAL is a publicly listed company, which manufactures a variety of terpene chemicals, camphor, speciality aroma chemicals, fragrances and flavours. Its product range includes synthetic camphor, terpineol, pine oil, resins, astromusk, perfumery chemicals, fragrances and flavours, and other chemicals used in different industries (such as pharmaceuticals, soaps and cosmetics, rubber and tyre, paints and varnishes, and fast-moving consumer goods, or FMCG). The company has three manufacturing plants at Nandesari (Vadodara, Gujarat), Bareilly (Uttar Pradesh) and Ambarnath (Maharashtra). It is currently setting up of a new unit at Mahad, Maharashtra, under its wholly-owned subsidiary, Oriental Aromatics and Sons Limited.

Key financial indicators (audited)

OAL Consolidated	FY2021	FY2022	H1FY023
Operating income	708.8	868.8	454.3
PAT	101.9	53.3	14.8
OPBDIT/OI	22.0%	10.7%	6.8%
PAT/OI	14.4%	6.1%	3.2%
Total outside liabilities/Tangible net worth (times)	0.34	0.43	0.47
Total debt/OPBDIT (times)	0.50	1.50	2.77
Interest coverage (times)	67.4	22.9	5.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
				Jan 20, 2023	Jan 04, 2022	Dec 21, 2021	Jan 08, 2021	Mar 30, 2020
1 Long term fund-based Term loan	Long term	150.0	50.0	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Long term/Short term – Fund based/Non fund based	Long term and short term	270.65	--	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
2 Long term – Unallocated	Long term	--	--	-	-	[ICRA]A (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund-based/Non-fund based limits	Simple
Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term fund-based – Term loan	Mar-Jun 2021	3M Repo + 1.5%; 3M T Bill + 2.09%	FY2027	150.0	[ICRA]A (Negative)
NA	Long term/Short term- Fund based/Non fund based	NA	NA	NA	270.65	[ICRA]A (Negative)/ [ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Oriental Aromatics and Sons Limited	100%	Full Consolidation

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Branches



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